

REASON FOUR

Fabulous Financing Sound Choices Among the State's Lending Options

By Mark Dayton

RAM COMPANY FOUND FUNDING FOR SOLENOID PRODUCTION



A BRIGHT, AGGRESSIVE ENTREPRENEUR with a brilliant new business concept and willing customers working in a strong, growing economy and he still has an empty bank account. What's missing in this business start-up picture?

While most entrepreneurs would say nothing is missing—including the empty bank account—many successful business builders argue that this need not be the case, particularly in Utah. The state has assembled an impressive array of funding sources that are an integral part of one of the most productive business innovation machines in the world.

Utah's business infrastructure has evolved from one that spawns and spins new companies off to other states, to one that develops, grows and keeps sizeable businesses as they mature. An important part of that progression is the right type of funding for each step of the process that matches the unique growth needs and characteristics of the business. Recent advances in Utah's funding community have created a wealth of options well suited to fuel the continued growth and prosperity of Utah's innovation alley.

As a result, entrepreneurs will find an abundance of both capital and expert advice at each step along the way, from the initial idea to the harvest, and every stage in between.

ANGELS AMONG US

The starting point for funding most new businesses is often affectionately known as "the three F's: friends, family and fools." In addition to exhausting his or her own personal funds, the entrepreneur will often go to friends and family for small amounts of capital to plant their budding idea.

From there, many would-be entrepreneurs don't know quite where to turn and often end up starving for cash or taking the wrong type of funding. "The biggest problem is that there is usually a huge gap between the three F's and

the next step—typically bank lending or venture capital funding," says Alan Hall, founder of Grow Utah Ventures. "Banks want collateral, and VCs are looking for larger, growing concerns."

That's where Hall's group, known as angel investors, comes in. Angels are very early stage investors who invest smaller amounts of cash at critical times in a start-up's beginning. After building his own startup into a very large, successful company, Hall wanted to give something back to the community and help other entrepreneurs find the success he has enjoyed. "For me it's all about giving back—recycling the money to keep doing good things and helping other entrepreneurs be successful."

Hall has found other like-minded angels (89 so far) who have come together in groups that coordinate new business evaluation and mentoring, and syndicate investments in the most promising ones. The group's goal is to grow total membership to 150 within two years and invest in a total of 100 Utah start-up companies. To date, they've made 55 invest-

ments, (averaging \$500,000 each) of which 50 are doing well—a very high success rate by any measure. So what's the secret?

"We invest much more than money in these businesses," says Hall. "There is a substantial amount of coaching, marketing and sales help, mentoring, etc. that the angels give to each deal. It makes a world of difference in the outcomes." Due to the success of the program, Hall has had visits from officials from numerous states and a variety of foreign countries interested in replicating his success in other parts of the country and the world.

While Grow Utah Ventures is among the newest of Utah's angel groups, it is by no means the only one. The Utah Angels of Utah County have been active for many years, as have other individual angels and smaller investor groups around the state.

VENTURE CAPITAL MUSCLE

Utah's robust entrepreneurial climate has benefited over the years from a solid and growing venture capital



STUDENTS AT THE UNIVERSITY VENTURE FUND BENEFIT FROM ENTREPRENEURS LIKE JAMES LEE SORENSON.

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Todd Stevens

MANAGING DIRECTOR,
WASATCH VENTURE FUND

CHARLOTTE'S ENJOYS
SMALL BUSINESS FINANCING IN UTAH

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community. These firms boast multiple successful raises and portfolios marked by strong growth and profitable exits. Utah's growing experience and sophistication in initiating and managing this deal flow has increasingly attracted the attention of investors and acquiring companies across the nation.

“Venture capital in Utah has really matured in the past few years,” says Todd Stevens, managing director of Wasatch Venture Fund, one of the early pioneers of venture capital in the state. “We have highly experienced firms who understand how to creatively get deals done, and who have the size and influence that make the difference in getting the most attractive opportunities funded.”

An important part of this success is the complete infrastructure surrounding successfully funded projects. This includes legal and accounting expertise, executive and board talent, and networking or syndication with other prominent venture funds in the appropriate fields of interest.

An excellent resource for companies seeking venture funding in the state is the Wayne Brown Institute (WBI). WBI offers entrepreneurs educational and training programs that transfer experience, knowledge, contacts and capital from the world's leading business and financial organizations to promising early-stage, technology-based companies. WBI also hosts several annual conferences that put selected entrepreneurs in front of angel, corporate and venture investors. Historically, 60 percent of these companies have found funding within 12 months. Other incubator programs can be found at Larry Miller Business Innovation Center, a part of the Salt Lake Community College, BYU, and U of U, through the business schools. More incubators are in development in the private sector and the existing operations can make referrals.

THE FUND OF FUNDS

Utah's robust entrepreneurial environment stems in part from a close working relationship between gov-

ernment and private sector funding resources. One particularly innovative program is the Utah Fund of Funds (Utah FoF).

Utah FoF was created by the Utah Legislature to increase the amount and diversity of capital funding available to high-growth, early-stage companies in the state. Rather than invest directly in these companies, the program is structured to attract quality professional venture capital firms both in and out of the state to focus more of their investment efforts on Utah entrepreneurs. The Utah FoF invests in these carefully chosen venture firms, which then commit to working closely with Utah companies and entrepreneurs with the goal of funding promising deals in the state.

“The Utah Fund of Funds is the result of years of work by a group of visionary professionals and legislators who studied and brought together the very best ideas, concepts and programs in the world for encouraging and supporting venture funding,” says Jeremy Neilson, managing director for Utah FoF. “The program

has already stimulated substantially higher attention and activity among quality investment firms in working with Utah entrepreneurs."

The Utah FoF financing is provided by a third party, and is backed by refundable, transferable, contingent State of Utah tax credits approved by the Utah Legislature. The first \$100 million round of the Utah FoF was financed by Deutsche Bank.

The Utah FoF is targeting approximately 20 venture funds for inclusion in its Fund I investments. Currently, the portfolio consists of nine investment firms, which range from seed stage to later-stage growth companies, and cross a variety of industry areas, including life sciences, information technology, retail, consumer and business services. Three of these firms are headquartered in Utah, one in Idaho, one in New York and the remainder in the San Francisco Bay Area.

SBA HEAVEN

Many entrepreneurial businesses are more suited to an infusion of debt capital rather than equity to help them get off the ground or on to the next phase of their growth. However, because of their early-stage status, most of them don't qualify for conventional loan financing because of few assets for security, higher perceived risk, and cash flows that are still ramping up.

For these companies, Utah offers one of the most successful and aggressive SBA (Small Business Administration) lending environments in the country. In 2006 Utah financial institutions initiated 2,153 SBA loans for a total of \$313 million. Per capita, that's the highest lending rate in the country.

These loans, which are made by local institutions but backed up by U.S. Government guarantees, provide young companies with up to \$2 million for working capital, equipment, inventory, purchase of land and buildings, or to acquire a business. Longer maturities and more competitive interest rates give growing companies a longer financial runway in their early years.

"Utah is a very entrepreneurial state," says Stan Nakano, district di-

rector, SBA in Utah. "Because of that culture and attitude, people in business here want to take advantage of our products and programs. It's working very well."

Of the total SBA loans placed in Utah during 2006, over 30 percent were to startup companies—those that have been in business less than two years—and nearly 23 percent went to minority and women business owners. "These loans showed good diversification, cutting across all types of businesses in a variety of key industries and products," says Nakano. "The state has done a wonderful job of creating a culture and a place where small businesses have the opportunity to succeed and grow. Our lending patterns are a reflection of that culture."

Scott Davis, president of Mountain West Small Business Finance reflects that same opinion. His company, a non-profit Certified Development Company (CDC) regulated by the SBA, is a leader in SBA lending. "The Utah SBA office is one of the most progressive in the country," says Davis. "These people look for ways to make deals happen versus the easy bureaucratic 'No'. They love the state and want to see businesses succeed."

Mountain West has been effective in helping small projects get off the ground, including those in many rural communities throughout the state. Last year, approximately 35 to 40 percent of loans placed were with businesses in rural areas.

BANKS AND CREDIT UNIONS

For decades, Utah banks have worked closely with the SBA to support lending programs that help small businesses build the local economy and create jobs. "Helping Utah's visionary entrepreneurs gain access to the capital they need is vital to banks because small businesses play a fundamental role in our economy and in the communities where we operate," says Howard Headlee, president of the Utah Bankers Association. "Small and growing businesses use the SBA loan process to establish and build a banking relationship that will last for years. It is important to choose a bank that has a full range of products as well as the business



expertise that can grow with the success of the business."

In Utah, Zions Bank has ranked as the state's top SBA lender for the past 13 consecutive years. During 2006, Zions approved more than \$43.3 million in 7(a) loans, representing 24 percent of all SBA-backed loans in the state. "We promote an institution-wide commitment to supporting small businesses because they preserve Utah's rich heritage of enterprise and ingenuity," says Scott Anderson, president and chief executive officer of Zions Bank. Zions Bank's expertise in this area is nationally recognized as they were one of just two banks in the nation to be designated as an "Export Lender of the Year" for 2007 by the U.S. SBA office. However, a record number of banks are competing with Zions for SBA loans in Utah, with 51 banks making SBA loans in 2006, up from 39 just five years ago.

Utah's credit unions have also begun to play a larger role in the SBA lending process. This has been achieved through an innovative cooperative Credit Union Service Organization (CUSO) called MBL, member business lending in industry parlance. MBL credit unions in the state handled 35 percent of the SBA loans through the first half of 2007. "MBL has provided credit unions with the necessary education and tools to become highly proficient in the SBA lending market," says Kent Moon, chairman and CEO of MBL. "This has opened up a whole new underserved market of small businesses who previously would have gone without much needed capital to expand."

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DISTRICT DIRECTOR,
SMALL BUSINESS ADMINISTRATION

ENTREPRENEUR'S DREAM

In recent years, Utah has been propelled to the national forefront as one of the top spots to start and grow a business, a position highlighted through numerous awards and recognitions. This environment has attracted growing numbers of budding entrepreneurs who are finding Utah's depth of resources and infrastructure unexcelled anywhere in the world. Among those resources is a robust financial community that is skilled and responsive in meeting the needs of small, growing companies. With so many other things to worry about in starting a new business, Utah entrepreneurs are sleeping better at night knowing that they will have more than a few pennies rattling around in the bank account.